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REPORT OF THE PROGRAMME AND BUDGET COMMITTEE ON THE WORK OF ITS TWELFTH SESSION

(18-20 November 1996)

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Introduction

1. The Programme and Budget Committee held its twelfth session at UNIDO Headquarters, Vienna International Centre, from 18 to 20 November 1996. The following 25 of the 27 members of the Committee participated in the session:

Austria, Belgium, Brazil, Denmark, Ecuador, Egypt, France, Germany, India, Italy, Japan, Kuwait, Libyan Arab Jamahiriya, Mexico, Nigeria, Republic of Korea, Romania, Russian Federation, Saudi Arabia, Slovakia, Switzerland, Thailand, Togo, United Kingdom of Great Britain and Northern Ireland and Uruguay.

2. The following 63 Members of UNIDO also attended the session:

Albania, Algeria, Angola, Argentina, Australia, Azerbaijan, Belarus, Bolivia, Bosnia and Herzegovina, Bulgaria, Chile, China, Colombia, Costa Rica, Croatia, Cuba, Cyprus, Czech Republic, Democratic People's Republic of Korea, Ethiopia, Finland, Ghana, Greece, Guatemala, Haiti, Hungary, Indonesia, Islamic Republic of Iran, Iraq, Ireland, Jordan, Kenya, Kyrgyzstan, Lebanon, Lesotho, Liberia, Luxembourg, Malaysia, Morocco, Namibia, Netherlands, Niger, Norway, Oman, Pakistan, Panama, Paraguay, Peru, Philippines, Poland, Portugal, Qatar, Slovenia, Spain, Sudan, Sweden, Tunisia, Turkey, Ukraine, United Arab Emirates, United States of America, Venezuela and Viet Nam.

3. The Economic Commission for Europe, United Nations Development Programme, United Nations Office at Vienna, United Nations Educational, Scientific and Cultural Organization, World Health Organization, European Commission and League of Arab States were represented.

4. In accordance with rule 17 of its rules of procedure, the Committee elected by acclamation Mr. O. Bajowa (Nigeria) as Chairman; Mr. H. J. Lee (Republic of Korea); Mr. F. Mayrhofer-Grünbühel (Austria), and Mrs. R. Lajous Vargas (Mexico) as Vice-Chairmen; and Mr. A. Vierita (Romania) as Rapporteur.

5. The agenda for the twelfth session as adopted by the Committee is contained in document PBC.12/1. Following the adoption of the agenda, the Director-General made an introductory statement that was duly taken into account by the Committee in the consideration of the relevant agenda items. An in-session briefing was held on 19 November 1996 on the new format and presentation of the 1998-1999 programme and budgets.

6. The report of the Programme and Budget Committee is submitted to the Industrial Development Board in accordance with Article 10.4 (d) of the Constitution.

7. The report contains the conclusions reached by the Committee. Statements of principle by some delegations made in connection with the adoption of conclusion 96/14 are included in annex I to the report. Annex II contains a list of documents submitted to the Committee at its current session.

8. The following conclusions of the Committee contain recommendations that call for action by the Board at its sixteenth session or are of relevance to the work of that session:

Conclusion	Subject
96/7	Implementation of programme and budgets, 1996-1997
96/8	Report of the External Auditor, financial performance report and programme performance report for the biennium 1994-1995

96/9	Financial situation of UNIDO
96/10	Timely payment of assessed contributions
96/11	UNIDO participation in activities financed by the Multilateral Fund for the Implementation of the Montreal Protocol
96/12	Financial regulations
96/13	Implications of United States' withdrawal
96/14	Medium-term programme framework 1998-2001 (including general ceiling for the biennium 1998-1999)
96/15	Industrial Development Fund and other voluntary contributions
96/16	Date of the thirteenth session

I. ORGANIZATIONAL MATTERS

9. On 18 November, the Committee considered a proposal by the Chairman to optimize the *utilization of available conference-servicing resources* and adopted the following conclusion:

Conclusion 96/6

The Committee, with the aim of utilizing the available conference-servicing resources to the maximum extent possible, decided to suspend with immediate effect rule 24 of its rules of procedure relating to the quorum, for the meetings of its twelfth session only, provided no substantive decisions were taken at those meetings.

10. The Committee also decided to set up informal in-session consultations with the aim of facilitating the drafting of conclusions and entrusted Mr. F. Mayrhofer-Grünbühel (Vice-Chairman) to chair those consultations.

II. IMPLEMENTATION OF PROGRAMME AND BUDGETS, 1996-1997 (item 4); REPORT OF THE EXTERNAL AUDITOR, FINANCIAL PERFORMANCE REPORT AND PROGRAMME PERFORMANCE REPORT FOR THE BIENNIUM 1994-1995 (item 5)

11. On 18 November, the Committee considered a report by the Chairman of the Programme and Budget Committee, Mr. A. Celso de Ouro-Preto (Brazil) on the informal intersessional consultations on an in-depth examination of the programmatic contents of the revised programme and budgets for the biennium 1996-1997 (PBC.12/12), a note by the Director-General on implementation of the programme and budgets, 1996-1997 (PBC.12/11), the financial performance report for the biennium 1994-1995 submitted by the Director-General (PBC.12/8), the report of the External Auditor on the accounts of the United Nations Industrial Development Organization and of the Industrial Development Fund for the fiscal period 1994-1995 ended 31 December 1995 (PBC.12/2) and the comments of the Director-General thereon (PBC.12/4), and the Annual Report of UNIDO 1995 (including programme performance report for 1995) (PBC.12/10, Add.1, Add.2 and Corr.1). On 18 November, the External Auditor, Mrs. H. van Wedel, President of the Federal Court of Audit of Germany, made a statement.

12. On 20 November, after consideration of a draft conclusion on the *implementation of programme and budgets, 1996-1997* submitted by the Chairman (PBC.12/L.7), the Committee adopted the following conclusion:

Conclusion 96/7

The Committee recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note with appreciation of the report of the Chairman of the Programme and Budget Committee on informal intersessional consultations on an in-depth examination of the programmatic contents of the revised programme and budgets for the biennium 1996-1997 (IDB.16/22);

"(b) Recognizes that the consultations provided the opportunity for Member States to review ways to improve the budget format, to discuss the programmatic impact of the staff reduction on a programme-by-programme basis, and to exchange views with representatives of the Secretariat;

"(c) Requests the Director-General to continue when necessary such informal intersessional consultations with delegations, under the guidance of the Chairman of the Programme and Budget Committee;

"(d) Requests the Director-General to provide briefings on the outlines of his programme and budget proposals for the biennium 1998-1999, and to organize the above informal intersessional consultations on his budgetary proposals on a programmatic basis, well in advance of the thirteenth session of the Programme and Budget Committee."

13. On 20 November, after consideration of a draft conclusion on the *report of the External Auditor, financial performance report and programme performance report for the biennium 1994-1995* submitted by the Chairman (PBC.12/L.6), the Committee adopted the following conclusion:

Conclusion 96/8

The Programme and Budget Committee:

(a) Took note of the report of the External Auditor on the accounts of the United Nations Industrial Development Organization and of the Industrial Development Fund for the financial period 1994-1995 ended 31 December 1995 as contained in document IDB.16/2-PBC.12/2, as well as the comments of the Director-General on the report of the External Auditor (IDB.16/4-PBC.12/4) and the financial performance report for the biennium 1994-1995 (IDB.16/8-PBC.12/8);

(b) Recognized the important contribution the External Auditor makes to the improvement of UNIDO's overall financial management and performance and took note of her recommendations in this regard;

(c) Expressed its appreciation to the External Auditor for her valuable report on the financial accounts of UNIDO for the fiscal period 1994-1995.

III. FINANCIAL SITUATION OF UNIDO (item 6); FINANCIAL REGULATIONS (item 7); CEILING OF ASSESSMENTS (item 10); WITHDRAWAL OF THE UNITED STATES OF AMERICA FROM UNIDO (item 11)

14. On 18 November, the Committee considered a report by the Director-General on the financial situation of UNIDO (PBC.12/7), a report (PBC.12/9) and a note (PBC.12/CRP.2) by the Chairman (Mr. S.K. Lee, Republic of Korea) of the intersessional open-ended discussion group to study applicable measures to expedite timely payment of assessed contributions, a report by the Director-General on financial regulations (PBC.12/6 and Add.1), and a note by the Secretariat on withdrawal of the United States of America from UNIDO: Some legal and financial implications (PBC.12/5 and Corr.1).

15. On 20 November, after consideration of a draft conclusion on the *financial situation of UNIDO* submitted by the Chairman (PBC.12/L.3), the Committee adopted the following conclusion:

Conclusion 96/9

The Programme and Budget Committee recommended to the Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Recalls General Conference decision GC.6/Dec.16 and Industrial Development Board decision IDB.15/Dec.4;

"(b) Takes note of the report of the Director-General on the financial situation of UNIDO (IDB.16/7-PBC.12/7) concerning the status of assessed contributions, advances to the Working Capital Fund, cash flow estimates, regular and operational budgets as well as information contained in document IDB.16/7-PBC.12/7 on separation indemnity reserve and promissory notes;

"(c) Takes note with concern of the information on the financial situation of UNIDO as contained in chapter I of document IDB.16/7-PBC.12/7, which could have severe implications for certain programmes and activities of the Organization;

"(d) Invites Member States which are in the position to do so to contribute to the financing of programmes in their own countries, with the aim of ensuring the quality of implemented projects, thus improving UNIDO's contribution to industrial development;

"(e) Requests the Director-General to undertake appropriate measures to ensure a more efficient use of regular budget resources and to improve the mobilization of extrabudgetary resources, *inter alia*, by exploring the possibility of using the mechanism of the round table for fund raising to finance specific regional programmes in cooperation with bilateral donors and multilateral financial institutions."

16. On 20 November, after consideration of a draft conclusion on *timely payment of assessed contributions* submitted by the Chairman (PBC.12/L.4), the Committee adopted the following conclusion:

Conclusion 96/10

The Committee recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the open-ended discussion group to study applicable measures to expedite timely payment of assessed contributions (IDB.16/9-PBC.12/9);

"(b) Notes with appreciation the timely payment of assessed contributions made by some Member States;

"(c) Notes with concern that delays in the payment of assessed contributions have significantly hampered the timely and orderly implementation of the programme of work of the Organization;

"(d) Urges all Member States to pay their contributions in accordance with financial regulation 5.5(b), which states that contributions and advances shall be due and payable in full within thirty days of the receipt of the communication of the Director-General, or as of the first day of the calendar year, whichever is later;

"(e) Urges further those Member States in arrears to pay their arrears at the earliest possible date and, if possible, in order to facilitate the cash management of the regular budget, to inform the Director-General promptly of the probable date and amount of payment of the forthcoming contribution;

"(f) Decides that the open-ended discussion group should continue working on the issue of timely payment of assessed contributions, taking into consideration, *inter alia*, proposals and background information provided by the Director-General, and requests the group to report to the Board at its seventeenth session, through the Programme and Budget Committee."

17. On 20 November, after consideration of a draft conclusion on the *UNIDO participation in activities financed by the Multilateral Fund for the Implementation of the Montreal Protocol* submitted by the Chairman (PBC.12/L.2), the Committee adopted the following conclusion:

Conclusion 96/11

The Committee recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Notes that since 1992, participation of UNIDO in the activities financed by the Multilateral Fund for the Implementation of the Montreal Protocol has assumed great importance;

"(b) Stresses the need for UNIDO to continue to participate actively in the work relating to the implementation of the Montreal Protocol by further enhancing its professional ability and competitiveness based on its comparative advantage;

"(c) Encourages the Director-General to continue his efforts towards mobilizing resources from other relevant multilateral funds."

18. On 20 November, after consideration of a draft conclusion on *financial regulations* submitted by the Chairman (PBC.12/L.8), the Committee adopted the following conclusion:

Conclusion 96/12

The Committee recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Recalls decision IDB.15/Dec.3;

"(b) Takes note of documents IDB.16/6 and Add.1, as well as the views expressed by delegations during the twelfth session of the Programme and Budget Committee;

"(c) Decides to establish an informal intersessional working group, open to all interested delegations, to be chaired by a representative of the Member States, with the task of studying proposed amendments to the financial regulations;

"(d) Requests the informal working group to submit a report to the Board at its seventeenth session, through the Programme and Budget Committee."

19. On 20 November, the Committee took note of the information on the *ceiling of assessments* as contained in the annotated agenda (PBC.12/1/Add.1).

20. On 20 November, after consideration of a draft conclusion on *implications of the United States' withdrawal* submitted by the Bureau (PBC.12/L.10), the Committee adopted the following conclusion:

Conclusion 96/13

The Committee recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Having considered the note by the Secretariat on legal and financial implications of the withdrawal of the United States of America from UNIDO (IDB.16/5 and Corr.1) and the intervention of the delegation of the United States of America confirming their intention to pay the arrears;

"(b) Recalls that all Member States have an obligation to discharge their arrears and pay their contributions promptly and in full;

"(c) Appeals to the United States Government to reconsider its decision to terminate the tax reimbursement agreement with UNIDO;

"(d) Requests the Director-General to continue his discussions with the United States authorities on these matters and to report to the seventeenth session of the Industrial Development Board."

IV. MEDIUM-TERM PROGRAMME FRAMEWORK, 1998-2001 (INCLUDING GENERAL CEILING FOR THE BIENNIUM 1998-1999) (item 8)

21. On 18 and 19 November, the Committee considered the proposals of the Director-General for the draft medium-term programme framework, 1998-2001 (PBC.12/13) and a preview of the first biennium 1998-1999 and preliminary indicative general ceiling submitted by the Director-General (PBC.12/13/Add.1).

22. On 20 November, after consideration of a draft conclusion on the *medium-term programme framework, 1998-2001 (including general ceiling for the biennium 1998-1999)* submitted by the Chairman (PBC.12/L.9), the Committee adopted the following conclusion:

Conclusion 96/14

The Committee recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Recalls United Nations General Assembly resolution 47/212 B and General Conference decision GC.6/Dec.10 and resolution GC.6/Res.4;

"(b) Takes note of the draft medium-term programme framework, 1998-2001, including the general ceiling for the biennium 1998-1999, as contained in decision GC.6/Dec.11(f);

"(c) Considers that the strengthening of substantive programmes in 1998-1999 is to be managed through resource redeployments within the identified priorities;

"(d) Recommends to the General Conference the approval of the draft medium-term programme framework, 1998-2001, as contained in document IDB.16/23-PBC.12/13, with provision for a comprehensive approach to human resources development for industry so that the respective activities are focused within the seven thematic priorities for the next biennium;

"(e) Requests the Director-General to pursue his vigorous efforts to further intensify fund-saving measures and, on this basis and on the basis of realistic financial assessment, to prepare his programme and budget proposals for the biennium 1998-1999 with a ceiling lower than zero real growth, without constituting a precedent, while not affecting substantive programmes and activities;

"(f) Invites the Director-General to report to the Programme and Budget Committee at its thirteenth session on the outcome of the present decision."

V. INDUSTRIAL DEVELOPMENT FUND AND OTHER VOLUNTARY CONTRIBUTIONS (item 9)

23. On 18 November, the Committee considered a report by the Director-General on the Industrial Development Fund—Estimated resource level and programme for 1997-1998 (PBC.12/3), information on the nature of projects financed from the Industrial Development Fund, contained in the Annual Report of UNIDO 1995 (PBC.12/10/Add.1 and Corr.1, appendix C), information on the nature of projects financed from third party and self-financed trust funds, contained in the Annual Report of UNIDO 1995 (PBC.12/10/Add.1, appendix D), and lists of projects approved under the Industrial Development Fund in 1995 (PBC.12/CRP.1).

24. On 20 November, after consideration of a draft conclusion on the *Industrial Development Fund and other voluntary contributions* submitted by the Chairman (PBC.12/L.5), the Committee adopted the following conclusion:

Conclusion 96/15

The Committee recommended to the Industrial Development Board the adoption of the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the Director-General contained in document IDB.16/3-PBC.12/3;

"(b) Also takes note of the approach for 1997 and 1998 in which priority will be accorded to programmes and projects developed under the thematic priorities as outlined in document IDB.15/14 (paras. 13-17);

"(c) Further takes note with appreciation of the intention of UNIDO to involve prospective donors in the programme development phase in consultation with respective Governments, beneficiaries and other relevant parties, in order to improve the responsiveness of the Organization to donors as well as recipients;

"(d) Decides to delegate to the Director-General the authority to approve projects for financing under the Fund in 1997 and 1998 in accordance with the seven thematic priorities;

"(e) Encourages Member States to increase their pledges to the Industrial Development Fund to ensure that the desired annual funding level of $50 million is reached in good time;

"(f) Further encourages Member States to contribute part of their contributions where possible to the general-purpose convertible segment of the Fund;

"(g) Requests the Director-General:

"(i) To enhance efforts in exploring other ways of additional non-traditional contributions in order to increase the level of the Industrial Development Fund;

"(ii) To consult continuously with donors in order to achieve a balanced distribution in dispensing special-purpose funds under the Fund;

"(iii) To provide a list of actual project approvals, giving a brief description of each for the 1996-1997 cycle;

"(iv) To report to the Programme and Budget Committee at its thirteenth session on the implementation of the present decision."

VI. DATE OF THE THIRTEENTH SESSION (item 12)

25. On 20 November the Committee adopted the following conclusion:

Conclusion 96/16

The Programme and Budget Committee decided to refer to the Industrial Development Board the question of the date for the thirteenth session of the Committee.

VII. ADOPTION OF THE REPORT AND CLOSURE OF THE TWELFTH SESSION (items 13 and 14)

26. On 20 November the Committee adopted the draft report of its twelfth session (PBC.12/L.1) on the understanding that the Rapporteur would be entrusted with the task of finalizing the report.

27. The Committee closed its twelfth session at 11.48 a.m. on 20 November 1996.

Annex I

STATEMENTS BY DELEGATIONS

1. The present annex contains statements of principle and statements connected with the adoption of conclusions of the Programme and Budget Committee; these statements have been included at the request of the delegations concerned and as agreed to by the Chairman.

Medium-term programme framework, 1998-2001 (including general ceiling for the biennium 1998-1999) (item 8)

2. The delegation of Argentina, on behalf of **GRULAC**, said that it regretted the lack of a consensus on the need to maintain the principle of zero real growth and, although the Group would not break the consensus on the conclusion reached, it requested that this should not constitute a precedent. The Group also called on those delegations that had difficulty in accepting the principle of zero real growth to reconsider their position and not to give a mistaken political signal.

3. The delegation of **India** stated that it had always been a position of principle that the budget of UNIDO should be growth oriented. Given the constraints of the financial situation, some conditions could be put regarding the growth of the budget but it could not be less than zero real growth. The delegation therefore would have liked that, in subparagraph (e) of the draft conclusion, the expression should have been "the biennium 1998-1999 with a ceiling not exceeding zero real growth ...". That would ensure that the substantive programmes of UNIDO would not be adversely affected due to the imposition of unreasonable conditions.

4. The delegation of Nigeria, speaking on behalf of the **African Group**, stated that the Group had followed the reform activities of UNIDO in the past three years and had noticed that the Organization had gone through an unprecedented degree of reform that could not be compared with any agency within the United Nations system. That had been a result of their recommendation, and the reform process had not only resulted in a substantial reduction on the resources of the Organization but also in its programmes and activities. The delegation said that it was a fact that Member States had continue to give expression of their political support to the Organization, even though that had not been matched with the required financial support. The level of unpaid assessed contributions was very high, while other sources of international funding of UNIDO activities were dwindling. The Group wished to appeal to Members to pay up their assessed contributions without any further delay. The withdraw of one of our major contributors, the United States of America, also signified a loss of 25 per cent of the resources available to UNIDO. That event had imposed on the Organization the difficulties of managing the meagre resources that were not available. The Group appealed to the United States to perform its financial obligations as it had already promised to do in its statement during the current session of the Programme and Budget Committee.

5. The African Group wished to express their appreciation to other major donors and appeal to them to further strengthen their support for the Organization. UNIDO could not afford to have any further reduction in its available resources if it is to continue to perform. It is in that regard that the Group had shown its strong preference for budgetary provision based on zero real growth for the 1998-1999 biennium in view of the unforeseen inflationary factor. Even though the Group shared the concern of those Member States who, because of the assumed effect that any increase might have on their internal budgetary arrangements, had argued for the zero nominal growth. The Group still believed that the most rational view would be to favour the former option, zero real growth. It was to be noted that all countries shared those presumed difficulties. This is why the Group wished to express its concern over the adoption of the

draft conclusion on the medium-term framework for the 1998-1999 biennium, which seemed not to have given any clear guidance to the Organization.

6. The Group intended to follow closely the process of budget formulation to ensure that substantive programmes were not affected. If necessary, the delegation said, the Group reserved the right to reopen the issue of zero real growth for the budget ceiling. Moreover, the departure from the principle of zero real growth should be an exception for the 1998-1999 biennium and not a precedent for the future.

Annex II

LIST OF DOCUMENTS SUBMITTED TO THE TWELFTH SESSION

Symbol	Agenda item	Title
PBC.12/1	3	Provisional agenda
PBC.12/1/Add.1	3	Annotated provisional agenda
PBC.12/2 IDB.16/2	5	Report of the External Auditor on the accounts of the United Nations Industrial Development Organization and of the Industrial Development Fund for the fiscal period 1994-1995 ended 31 December 1995
PBC.12/3 IDB.16/3	9	Industrial Development Fund - Estimated resource level and programme for 1997-1998. Report by the Director-General
PBC.12/4 IDB.16/4	5	Comments of the Director-General on the report of the External Auditor
PBC.12/5 and Corr.1 IDB.16/5 and Corr.1	11	Withdrawal of the United States of America from UNIDO. Some legal and financial implications. Note by the Secretariat
PBC.12/6 and Add.1 IDB.16/6 and Add.1	7	Financial regulations. Report by the Director-General
PBC.12/7 IDB.16/7	6	Financial situation of UNIDO. Report by the Director-General
PBC.12/8 IDB.16/8	5	Financial performance report for the biennium 1994-1995. Submitted by the Director-General
PBC.12/9 IDB.16/9	6	Intersessional open-ended discussion group to study applicable measures to expedite timely payment of assessed contributions. Report of the Chairman (H.E. Mr. S.K. Lee, Republic of Korea)
PBC.12/10 IDB.16/10 and Corr.1	5	Annual Report of UNIDO 1995
PBC.12/10/Add.1 IDB.16/10/Add.1	5	Annual Report of UNIDO 1995. Programme performance report. Operational statistics and other appendices
PBC.12/10/Add.2 IDB.16/10/Add.2	5	Annual Report of UNIDO 1995. Programme performance report. List of technical cooperation projects
PBC.12/11 IDB.16/21	4	Implementation of the programme and budgets, 1996-1997. Note by the Director-General
PBC.12/12 IDB.16/22	4	Informal intersessional consultations on an in-depth examination of the programmatic contents of the revised programme and budgets for the biennium 1996-1997. Report by the Chairman of the Programme and Budget Committee, H.E. Mr. A. Celso de Ouro-Preto (Brazil)

Symbol	Agenda item	Title
PBC.12/13 IDB.16/23	8	Draft medium-term programme framework, 1998-2001. Proposals of the Director-General
PBC.12/13/Add.1 IDB.16/23/Add.1	8	Preview of the first biennium (1998-1999) and preliminary indicative general ceiling. Submitted by the Director-General
		* * *
PBC.12/CRP.1	9	Lists of projects approved under the Industrial Development Fund (IDF) in 1995. Prepared by the Secretariat
PBC.12/CRP.2 IDB.16/CRP.2	6	Intersessional open-ended discussion group to study applicable measures to expedite timely payment of assessed contributions. Note by the Chairman (H.E. Mr. S.K. Lee, Republic of Korea)
PBC.12/CRP.3 IDB.16/CRP.6	6	Financial situation of UNIDO. Update of document IDB.16/7-PBC.12/7. Note by the Secretariat
PBC.12/CRP.4	3	List of documents
PBC.12/CRP.5	-	List of participants

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Sixteenth session
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Item 14 of the provisional agenda

APPROVAL OF APPOINTMENTS OF MANAGING DIRECTORS

Proposal submitted by Morocco

Note by the Director-General

1. The Permanent Representative of Morocco to UNIDO, in a communication addressed to the Director-General dated 10 October 1996, requested the inclusion of the above item in the agenda of the forthcoming session of the Board. That communication is reproduced in its entirety in annex I to the present note. The reply of the Director-General dated 28 October 1996 is contained in annex II.

2. The request for inclusion of the supplementary item has been submitted in accordance with rules 11, 12 and 14 of the rules of procedure of the Board.

Annexes

I. Letter from the Permanent Representative of Morocco to the Director-General

II. Letter from the Director-General to the Permanent Representative of Morocco

For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

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Annex I

Letter from the Permanent Representative of Morocco to the Director-General

Permanent Mission of the Kingdom of Morocco
to the International Organizations in Vienna

The Ambassador, Permanent Representative

No. 282 Vienna, 10 October 1996

Sir,

With reference to the meeting held, under your chairmanship, on 8 October 1996 and concerning appointments to the post of Managing Director in UNIDO, I have the honour to transmit to you the following comments:

(1) This meeting was held, for the first time, in pursuance of decision IDB.15/Dec.2 adopted by the Industrial Development Board at its fifteenth session in May this year, which in paragraph (e) urged the Director-General "**to conduct more consultations** with Member States and representatives of regional groups to obtain their views on the remaining stages of the reform process and appointment of Managing Directors, without prejudice to his constitutional authority and the staff regulations".

However, the 8 October meeting was merely an opportunity for the Secretariat to announce decisions that had already been adopted and to request the participants to take note of them, whereas a genuine process of consultation would have involved an exchange of views and the dissemination of all the information available, including the *curricula vitae* of the candidates selected.

(2) Article 11, paragraph 5, of the UNIDO Constitution states that "**Appointments at the level** of Deputy Director-General shall be subject to approval by the Board".

The Moroccan delegation believes that this procedure also applies to appointments at the level of Managing Director. At the time the Constitution was drafted, the post of Deputy Director-General was the most important in the Organization after that of Director-General. Now that the Deputy Director-General posts have been abolished, the Managing Directors constitute the second highest level of authority in the Organization after the office of Director-General. Furthermore, the functions assigned to the Managing Directors are of such great importance that it is more than desirable that the policy-making organs, and hence the Member States, should have the right of review regarding their appointment.

The Moroccan delegation wishes to make it quite clear that it has no objection to the nominations put forward by the Director-General and that it does not entertain any preconceived views against the candidates selected. It is motivated purely by its constant concern to scrupulously respect the letter and the spirit of the texts governing our Organization, of which there is no more devoted supporter than Morocco.

Consequently, I would be most grateful if you would kindly circulate this letter to the Members of the Board and if you would also provide for the inclusion on the agenda of the next session of the IDB of an item entitled "Approval of appointments of Managing Directors" as an urgent additional issue, in conformity with rule 12 of the Rules of Procedure of the Industrial Development Board. Urgent consideration of this matter is warranted by the very recent instance of a procedure in breach of the provisions of article 11, paragraph 5, of the UNIDO Constitution.

Accept, Sir, the assurances of my highest consideration.

(Signed)

Abderrahim Benmoussa

Mr. Mauricio de Maria y Campos
Director-General
UNIDO

[Embassy stamp]

Annex II

Letter from the Director-General to the Permanent Representative of Morocco

DIRECTOR-GENERAL

Vienna, 28 October 1996

Sir,

I have the honour to refer to your letter dated 10 October 1996 containing your observations with regard to the meeting with Member States which took place on 8 October 1996 under my chairmanship and, in particular, to the appointments of Managing Directors that I have made. I wish to provide you with the following comments on the specific points raised in your letter.

In the first place I will address the contention made in paragraph 2 of your letter to the effect that the requirement of the Industrial Development Board approval of the appointment of Deputy Directors-General pursuant to Article 11, paragraph 5, of the Constitution of UNIDO, is also applicable to the appointment of Managing Directors. Article 11, paragraph 5 of the Constitution in its relevant part states as follows:

> "Appointments at the level of Deputy Director-General shall be subject to approval by the Board".

This provision clearly refers to one specific level of official, the "Deputy Directors-General", formally designated by that title in the Constitution. This designation does not cover any other functional level in the Secretariat of UNIDO; nor can it be interpreted to refer to any other officials of the Organization.

I would like to recall that during the negotiations of UNIDO's Constitution, which was adopted in 1979, the question was debated as to whether the function of Deputy Director-General should or should not be included in the Constitution, as the only function apart from that of the Director-General with constitutional status. In the end, the present Article 11, paragraph 1, was adopted, reading:

> "The Secretariat shall comprise a Director-General, as well as such Deputy Directors-General and other staff as the Organization may require." (emphasis added)

The wording of this provision makes the existence of Deputy Directors-General dependent on the requirements of the Organization. In other words, the Constitution admits a situation in which there would be no Deputy Directors-General. It was on this legal basis that the Board, in IDB.11/Dec.40, adopted on 29 October 1993 at its resumed 11th session,

> "(b) Decided, in the light of the proposed structural reform of UNIDO to revoke Board decision IDB.1/Dec.11, which no longer met the requirements of the Organization ..."

It is recalled that in its decision IDB.1/Dec.11 of 15 November 1985, the Board had decided that 5 Deputy Directors-General be appointed. It is interesting to note that the last part of the sentence clearly states that the appointments at that level, as provided for under Article 11, paragraph 1, of the Constitution no longer met the requirements of the Organization. In this connection, I would like to draw your attention to the historical background of this decision which was based on the proposals I had made on the structural reform of UNIDO and submitted to the General Conference, through the Industrial Development Board, as contained in document GC.5/23-IDB.11/31 of 24 September 1993. The debate on these proposals by the Industrial Development Board at its resumed eleventh session of 28 October 1993, as contained in document IDB.11/SR.9, is also highly relevant to the understanding of the results of the reform.

In the light of the clear wording of the relevant Constitutional provision, as well as its drafting history during the negotiations on the Constitution, I see no legal grounds to maintain that the approval requirement contained in Article 11, paragraph 5, sentence 2, which refers solely to the appointment of Deputy Directors-General applies to the appointment of Managing Directors at the D-2 level. In the same manner as other staff members of the Organization, the appointment of Managing Directors is governed by Article 11, paragraph 5, sentence 1, of the Constitution which reads as follows:

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Permanent Representative of Morocco to UNIDO
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> "The staff shall be appointed by the Director-General under regulations to be established by the Conference upon recommendation of the Board."

I wish to add that this has been the undisputed practice for the appointment of Managing Directors since the proposals on structural reform of UNIDO were adopted in 1993. The policy-making organs of the Organization have duly acknowledged this practice as is evident from IDB.13/Dec.2 of 11 November 1994 which recalled that

> "(e) ... in any consideration of appointment for posts, inter alia those of Managing Directors, due regard should also be paid to the importance of recruiting staff on a wide and equitable geographical basis."

Secondly, I would like now to turn to the other issue raised in paragraph 1 of your letter, namely the suggestion that there was no "genuine process of consultation" in the recent appointment of Managing Directors which I announced at the meeting of 8 October 1996.

In this connection, the Board in its decision IDB.15/Dec.2 of 9 May 1996,

> "(e) Urged the Director-General to conduct more consultations with Member States and representatives of regional groups to obtain their views on the remaining stages of the reform process and appointment of Managing Directors, without prejudice to his constitutional authority and the staff regulations;" (emphasis added)

In the spirit of good cooperation and prior to the meeting of 8 October 1996, I held extensive consultations with representatives of regional groups and of Member States, as proposed to me by the Board. During these consultations, I sought and obtained the views of the representatives of numerous Member States as well as representatives of regional groups, including the representative of the Group of 77. I also referred to these consultations at the above-mentioned meeting of 8 October 1996. However, it should be clearly understood that these consultations were informal and that the above-referred IDB decision neither prescribes a specific procedure nor does it subject the appointment of Managing Directors to approval by the Board. In consequence, while responding positively to the request for more consultations by the Board, I have lawfully exercised my prerogatives for the appointment of staff at the D-2 level in accordance with the Constitution and staff regulations of UNIDO.

In the third place, following your request I am circulating your letter of 10 October 1996 to the Members of the Board, together with my reply. You have further requested that a supplementary item be included in the agenda of the 16th session of the Board, entitled "Approval of the Appointments of Managing Directors", in accordance with Rule 12 "Supplementary items" of the Rules of Procedure of the Board.

It is my considered view that there is no "... urgency of consideration of the proposed item ...", as required by Rule 12. As a Director-General I have all the time lawfully exercised my constitutional prerogatives relating to the appointment of staff. I consider that there is nothing sudden or urgent about the exercise of this prerogative, even as related to the appointment of Managing Directors. I am also of the firm view that the procedure followed for the appointment of new Managing Directors was far from being inconsistent with Article 11, paragraph 5, sentence 2, of the Constitution which relates to a totally different functional level that no longer exists in UNIDO. Nevertheless, I shall communicate to the Board your request for inclusion in its provisional agenda of a supplementary item on the appointment of Managing Directors.

Accept, Sir, the assurances of my highest consideration.

Mauricio de Maria y Campos

Distr.
GENERAL

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Industrial Development Board

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Item 3 of the provisional agenda

ANNUAL REPORT OF THE DIRECTOR-GENERAL ON THE ACTIVITIES OF THE ORGANIZATION IN 1995, INCLUDING PROGRESS REPORT ON SPECIFIC ACTIVITIES

Arrangements for the establishment of an international centre for hydrogen energy technologies

Report by the Director-General

Summary

Reviews progress made and considerations related to the establishment of an international centre for hydrogen energy technologies. Presents the arrangements for implementation of the centre based on voluntary contributions to UNIDO.

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For reasons of economy, this document has been printed in a limited number. Delegates are kindly requested to bring their copies of documents to meetings.

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Introduction

1. Many industrialized countries have recognized the future importance of hydrogen as an environmentally clean energy alternative, and are conducting research into all aspects of the hydrogen energy system. They possess the technological know-how for its implementation. As energy and environmental problems are global problems, no one country can solve them by itself. No border barriers can stop pollution, acid rains and the greenhouse effect from spreading. Therefore, it is to the advantage of both the industrialized and the developing countries to cooperate in the following areas:

(a) Research and development (R and D) for the development and application of hydrogen energy technologies;

(b) The transfer of such technologies;

(c) Establishment of the appropriate industries;

(d) Initiation of a durable and environmentally compatible energy system based on hydrogen.

2. Most developing countries have established national centres for research on renewable energy sources, including solar energy. Some of these conduct research on hydrogen production. However, no single developing country presently performs R and D work covering all aspects of the hydrogen energy system (production, storage, transmission, distribution, utilization by the energy-consuming sectors, environmental impact studies, and economics of the system). It is recognized in many countries that national efforts, whether scientific and technological or industrial and commercial, would be considerably facilitated by international interaction. The scientific and technological community feels that it is imperative to have the opportunities for interaction and exchanges on an international scale.

3. The creation of the centre would be the most practical and effective means of assisting, in an integrated fashion, the strengthening of national technological capabilities in this important field. The spin-off effects of the centre could in fact be considerable, not only in the developing regions of the world, but also in the industrialized countries. Given the general lack of infrastructure and financial resources to support an adequate R and D effort in this field in developing countries, the centre may well be the only means by which they can get started in this crucial area of knowledge and skills, ensure that optimal technology choices are made, local problems addressed and major natural resources utilized.

I. PAST AND ONGOING UNIDO ACTIVITIES ON PROMOTION OF HYDROGEN ENERGY TECHNOLOGIES

4. The relevance of hydrogen energy technologies for developing countries was examined by UNIDO during the late 1980s-early 1990s. In 1988 UNIDO carried out a study entitled "Hydrogen Energy Technology for Developing Countries". The study concluded that the necessary technologies for the near-term application of hydrogen energy exist and that these technologies are especially attractive for developing countries. In 1991, the UNIDO report "Hydrogen Energy Initiation in Developing Countries" gave special consideration to the technologies suitable for developing countries. Among other recommendations, it was suggested to establish an international centre for hydrogen energy technologies to conduct R and D and training programmes for personnel to run the hydrogen energy system. Following these recommendations UNIDO, in cooperation with the Asian and Pacific Centre for Transfer of Technology (APCTT) and the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), arranged in 1992 several expert group meetings on hydrogen as an energy alternative for developing countries. The meetings were attended by experts from China, Cuba, Guatemala, Honduras, India, Indonesia, Jamaica, Malaysia, Mexico, Pakistan, Philippines, Sri Lanka, Thailand and Viet Nam. These meetings confirmed the growing interest from developing countries for hydrogen energy technologies as a viable option for the future energy system. The meetings strongly endorsed the UNIDO initiative for the establishment of an international centre for hydrogen energy technologies.

5. In 1992 the Government of Turkey took up the issue of international cooperation in the area of hydrogen energy technologies and supported a UNIDO project to carry out a feasibility study for the establishment of an international centre for hydrogen energy technologies in Turkey.

II. FEASIBILITY STUDY

6. In recent Annual Reports of UNIDO (1993-1995) references were made to the progress achieved in carrying out a feasibility study for the establishment of an international centre for hydrogen energy technologies. As part of the feasibility study, visits to numerous Governments, government agencies, international organizations and research institutes were undertaken, including Turkey—the proposed host country—China, Egypt, France, Germany, India, Italy, Japan, Kuwait, the

United States of America, the European Union, the International Energy Agency, the Global Environmental Facility and the World Bank. Government and agency representatives in all countries visited expressed a very positive attitude to the proposed centre; some indicated strong support and all provided suggestions concerning the proposal. The international scientific and technological community has expressed willingness to participate in various stages of the centre's research and training activities. The importance of cooperation with ongoing regional, national and international research and development programmes in this field has been emphasized.

7. A meeting of international experts was held in May 1996 at Istanbul to review and discuss the feasibility report. The meeting was attended by 21 high-level international experts from 10 countries who reviewed the feasibility study. The proposal for establishing the centre to promote introduction of hydrogen as a clean source of energy for the benefit of both developing and developed countries was unanimously supported by the international experts.

III. ESTABLISHMENT OF THE CENTRE

8. The preparatory activities have confirmed the essential role that the centre can play in international cooperation in the field of hydrogen energy technologies and the need for the continued involvement of UNIDO in its establishment and operation. To attract high-level researchers and engineers required for the creation of an institution of excellence, to generate voluntary contributions and financial support, and to have an adequate impact on industrial and technological development, it is considered essential for the centre to be under the auspices of UNIDO.

9. In the light of the foregoing, it is opportune to consider the arrangements for the establishment of the centre. International centres of excellence are effective mechanisms of international cooperation for helping developing countries in long-term capacity-building in high technology areas. Within thematic priority 4 (innovation, productivity and quality for international competitiveness), a major programme area has been the promotion of international and regional centres covering developments in new technologies with wide cross-sectoral impact in order to allow broader participation and access in developing countries to state-of-the-art research and development and commercialization of new technologies.

10. The centre would provide a variety of benefits to its participants, both in industrialized and developing countries, including the following:

(a) A proper mechanism for technology transfer would be created, which would encourage international cooperation and eliminate duplication of effort;

(b) New opportunities for industries involved in hydrogen energy-related areas would be defined;

(c) Through the usage of an energy system reducing atmospheric, marine and soil pollution, access to renewable energy sources and sustainable economic development would be provided.

11. For developing countries in particular, the centre would bring the following additional benefits:

(a) Support for the establishment of a clean and permanent energy system based on indigenous primary energy sources;

(b) Assistance in attaining a greater level of energy independence;

(c) Access to the technologies involved in the implementation of hydrogen energy systems;

(d) Access to information on hydrogen energy research and development world-wide;

(e) Promotion of cooperative research and development projects between developing and industrialized countries;

(f) Assistance in acquiring the technical skills required for the changes anticipated in energy systems in the twenty-first century;

(g) Assistance in preparation for the forthcoming period of energy source conversion;

(h) Assistance to current energy exporters in becoming exporters of hydrogen energy.

12. The long-term mission of the centre would be to act as a bridge between industrialized and developing countries, in closing the gap between R and D organizations, innovative enterprises and the market-place, so as to stimulate appropriate applications of hydrogen energy technologies in industrial development throughout the world in general and in developing countries in particular. The objectives of the centre would be the following:

(a) To further, for the benefit of developing and developed countries, the application of hydrogen for peaceful aims, as well as the development and transfer of hydrogen-related technologies, including the associated technology management processes;

(b) To further the advancement of applied research and development on hydrogen energy, with direct involvement of developing country scientists and technologists;

(c) To support the strengthening of developing countries' research, development and technology transfer centres and programmes, including mechanisms for supporting existing industrial enterprises and the creation of new enterprises involved with applications of hydrogen energy technologies.

13. To fulfil these objectives, the centre would carry out the following main functions: long- and short-term training through conducting workshops and scientific meetings; operation of learning-by-doing programmes for visiting scientists and technologists, research, development and technology transfer activities, advisory services, cooperation with industry, networking, cooperation with and affiliation of relevant national institutions, and transfer and management of related technologies. The centre would promote and facilitate the introduction of hydrogen energy technologies in participating countries through techno-economic studies, including technology monitoring and forecasting, R and D, technology transfer, training and tools development, fellowships and advisory services. The emphasis of the centre's research activities would be on applied research and development, and not on basic research. These activities would be supported by a database through the Internet and other means, including pertinent information on research results from laboratories and institutes worldwide, and on related technologies, products and services.

14. The development of international centres as institutions of excellence is very much dependent on the cooperation of the scientific and technological community, and on donor support. The centre would be financed exclusively from voluntary contributions to UNIDO for that purpose. The foregoing considerations have been kept in mind in discussions with the representatives of the Government of Turkey, who have indicated that the Government will allocate the required land, will build the centre's premises in Istanbul, and will support its operations under a special-purpose contribution from Turkey.

15. With regard to the constitutional mandate of UNIDO, it is proposed that the centre will be established as an autonomous institution within the legal framework of UNIDO. The institutional structure which is proposed for discussions with the Government of Turkey is shown in the annex to the present document.

IV. ACTION REQUIRED OF THE BOARD

16. The Industrial Development Board is invited to consider the following draft decision:

"The Industrial Development Board:

"(a) Takes note of the report of the Director-General on the initial proposal of the Government of Turkey for the establishment of an international centre for hydrogen energy technologies (IDB.16/26), financed exclusively by voluntary contributions to UNIDO, as an autonomous technological institution, within the legal framework of UNIDO, and with the proposed institutional structure as stated in the annex to document IDB.16/26;

"(b) Requests the Director-General to pursue the discussions with the Turkish authorities for the establishment and long-term operation of the centre;

"(c) Further requests the Director-General to submit a report to the Board at its seventeenth session on the progress made in the establishment of the centre;

"(d) Invites the General Conference at its seventh session to take note of the present decision."

Annex

PROPOSED INSTITUTIONAL STRUCTURE OF THE CENTRE

General

1. The centre will be financed exclusively from voluntary contributions to be made to UNIDO for the purpose of the centre. No expenditure may be charged to the UNIDO regular budget except to the extent that the regular budget is reimbursed for such expenditures. To reimburse administrative and other support costs by the UNIDO Secretariat, the Director-General shall determine the overhead rate at which expenditures for centre activities shall be charged. Provision shall also be made for reserves for the liquidation of claims from staff of the centre and from third parties.

2. The Government of Turkey and UNIDO shall conclude the necessary agreements defining the objectives, the financial contributions of the Government of Turkey and the legal status of the centre and providing privileges and immunities, exemptions and benefits at the level comparable to that provided to other agencies of the United Nations. The agreement concerning the seat for the centre shall also contain, as an annex, a description of the land and buildings which shall be placed at the disposal of UNIDO free of charge as a contribution of the Government of Turkey to be used as the premises of the centre, in accordance with and pursuant to the terms of the agreement. The agreements shall be concluded without delay in order to enable UNIDO to implement the institutional structure set out herein.

Director-General

3. The Director-General of UNIDO shall be the chief administrative officer of the centre in accordance with Article 11 of the Constitution of UNIDO. In that capacity he shall ensure that the centre is administered in accordance with the Financial and Staff Regulations and Rules of UNIDO and he may, as necessary, issue special rules and administrative instructions or circulars for the centre. The Director-General shall appoint the Managing Director and other staff of the centre in accordance with the Staff Regulations and Staff Rules of UNIDO.

Managing Director of the centre

4. Subject to the authority of the Director-General of UNIDO as chief administrative officer, the Managing Director shall be responsible for the management and administration of the centre. He shall prepare the programme and budget of the centre having considered the recommendations of the International Scientific Advisory Committee.

Steering Committee

5. A Steering Committee will be composed of two representatives of the host Government, representatives of major donors, the Director-General of UNIDO or his representative, and a representative of developing countries selected on the proposal of the Director-General on a rotating basis. The Steering Committee shall review and agree on the draft programme and budget taking into account the recommendations of the International Scientific Advisory Committee, the amount of resources offered by each donor and the priorities attached by them to the different activities of the centre. The Steering Committee will also suggest candidates for appointment as Managing Director of centre, who will be a well-established expert in hydrogen energy. The Managing Director shall submit the programme and budget, as agreed by the Steering Committee, to the Director-General of UNIDO for his approval.

International Scientific Advisory Committee

6. An International Scientific Advisory Committee will be constituted by the Director-General of UNIDO, taking into consideration the proposals of the Steering Committee and of the Managing Director. The Director-General of UNIDO or his representative will participate in the work of the International Scientific Advisory Committee. The Committee will advise on the scientific aspects of the centre's work, normally meeting at least once a year. In particular, the Committee shall review the draft programme and budget and make its recommendations thereon.

Programme and budget

7. The Director-General of UNIDO will establish under the Financial Regulations and Financial Rules of UNIDO a trust fund for the purpose of the centre.

8. The centre's programme and budget will be for a five-year period and shall be extended biennially for five-year periods, following UNIDO's budget cycles. Donor commitments are expected to be made on the basis of such five-year programmes. Payments may be made on a yearly basis.